

## Message Text

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PAGE 01 MEXICO 20294 070021Z

ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01

L-03 H-01 PA-01 PRS-01 AGRE-00 /089 W

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 6787

INFO TREASURY WASHDC

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EO 11652: N/A

TAGS: EFIN MX

SUBJECT: NEW PRICE CONTROL POLICY

1. SUMMARY: A NATIONAL COMMISSION ON PRICES WAS ESTABLISHED BY PRESIDENTIAL DECREE ON OCTOBER 21 AND WILL ADVISE THE SECRETARY OF COMMERCE ON PRICES BEGINNING FEBRUARY 1, 1978. ON THIS SAME DATE, THE NUMBER OF PRODUCTS SUBJECT TO PRICE CONTROL WILL BE REDUCED. END SUMMARY.

2. TWO DECREES PUBLISHED ON OCTOBER 21 AND 25 ESTABLISH A NATIONAL COMMISSION ON PRICES AND REVISE THE SO-CALLED FLEXIBLE PRICE CONTROL SYSTEM ESTABLISHED IN OCTOBER 1974.

3. THE NATIONAL COMMISSION ON PRICES WILL BE COMPOSED OF REPRESENTATIVES OF GOVERNMENT SECRETARIATS AND AGENCIES, PLUS REPRESENTATIVES OF VARIOUS INTEREST GROUPS, INCLUDING INTER ALIA THE CHAMBER OF COMMERCE AND NATIONAL PEASANTS CONFEDERATION. THE COMMISSION WILL HAVE A SECRETARIAT WHICH WILL UNDERTAKE STUDIES. THE COMMISSION'S FUNCTION IS ADVISORY, WITH THE SECRETARY OF COMMERCE, ITS CHAIRMAN, HAVING THE FINAL SAY ON MAXIMUM PRICES. THE COMMISSION'S

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PAGE 02 MEXICO 20294 070021Z

ADVICE AND WORK IS TO FOCUS ON BASIC CONSUMER GOODS AND BASIC AGRICULTURAL PRODUCTS WHEN THE PRICES FOR SUCH WILL AFFECT CONSUMER PRICES.

4. AS BEST WE CAN DETERMINE, THE COMMISSION WAS CREATED IN ORDER TO TAKE PRESSURE OFF THE SECRETARY OF COMMERCE WHEN SETTING NEW PRICES FOR BASIC CONSUMER GOODS. HE WAS

RECENTLY CRITICIZED HEAVILY FOR PERMITTING INCREASES IN THE PRICES FOR SEVERAL BASIC FOODSTUFFS. AFTER FEBRUARY 1, WHEN THE COMMISSION IS TO BE FORMED, HE CAN PUT THE BLAME ON A BROADLY BASED GROUP.

5. AS WASHINGTON MAY BE AWARE, MEXICO HAS TWO TYPES OF PRICE CONTROLS. ONE COVERS A LIST OF BASIC CONSUMER GOODS, MOSTLY FOODSTUFFS PLUS GASOLINE, CIGARETTES, SOAP AND MEDICINES, FOR WHICH THE GOM SETS A MAXIMUM PRICE. THE OTHER IS THE FLEXIBLE PRICE CONTROL INTRODUCED IN 1974 WHICH WILL, AFTER FEBRUARY 1, 1978, WORK MORE OR LESS THE SAME AS PREVIOUSLY, BUT WILL COVER A SLIGHTLY SMALLER LIST OF GOODS. ITEMS THAT WILL BE DROPPED INCLUDE CLOTHING AND SHOES, SOME GLASS PRODUCTS, AND SCHOOL SUPPLIES. ALSO, LAUNDRY, FUNERAL, AND HOSPITAL AND OTHER SERVICES WHICH WERE BROUGHT UNDER CONTROL IN SEPTEMBER 1976 WILL NO LONGER BE SUBJECT TO CONTROL. AUTOMOBILES WERE DE-CONTROLLED EARLIER THIS YEAR; TRUCKS REMAIN UNDER CONTROL.

6. THE FLEXIBLE PRICE CONTROL SYSTEM FUNCTIONS AND WILL CONTINUE TO FUNCTION AS FOLLOWS: WHEN THE PRODUCTION COSTS HAVE INCREASED FIVE PERCENT OR MORE SINCE THE LAST PRICE INCREASE WAS GRANTED, THE COMPANY APPLIES TO THE COMMERCE SECRETARIAT FOR AUTHORITY TO RAISE ITS PRICES BY A LIKE AMOUNT. IN THEORY, COMMERCE IS TO ACT ON REQUEST WITHIN 30 WORKING DAYS. COMMERCE CAN REDISTRIBUTE PRICE INCREASES LIMITED OFFICIAL USE

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PAGE 03 MEXICO 20294 070021Z

IN SUCH A WAY THAT THEY ARE "LESS FOR ARTICLES OF MAJOR ECONOMIC AND SOCIAL IMPORTANCE AND MORE FOR OTHER PRODUCTS AS LONG AS THE AVERAGE PRICE INCREASE IS THE SAME AS THE AVERAGE INCREASE IN COSTS."

7. THE BUSINESS COMMUNITY HAS LONG BEEN IRRITATED BY PRICE CONTROLS; THEY HAVE COMPLAINED THAT THE FLEXIBLE SYSTEM IS NOT AS FLEXIBLE AS BILLED, THAT APPROVALS FOR PRICE INCREASES CAN BE DELAYED INDETERMINABLY, AND THAT THE CONTROLS HOLD DOWN PROFITS, THEREBY REDUCING FUNDS AVAILABLE FOR REINVESTMENT. WHILE THOSE BUSINESSMEN WHOSE PRODUCTS WILL BE DE-CONTROLLED ARE PLEASED, THEY REMAIN SKEPTICAL THAT THE GOVERNMENT WILL PERMIT SIGNIFICANT PRICE INCREASES NEXT FEBRUARY.

8. IT IS NOT CLEAR WHY THE GOM ANNOUNCED THE PROPOSED CHANGES SO LONG BEFORE THEY ARE TO OCCUR. IT MAY HAVE WANTED TO GIVE THE BUSINESS COMMUNITY SOME GOOD NEWS WHILE AT THE SAME TIME HOLDING DOWN PRICE INCREASES THROUGH THE END OF THE YEAR, WHEN THE NEW MINIMUM WAGE IS TO BE SET. IT SHOULD BE NOTED THAT THE REFORM DOES NOT GO VERY FAR. MORE PRODUCTS ARE UNDER CONTROL THAN PRIOR TO OCTOBER 1974.

WHILE THE SO-CALLED 90 BASIC PRODUCTS PROGRAM CONTINUES  
TO MOVE SLOWLY, THE GOM MAY BELIEVE THAT THIS PROGRAM  
GIVES THEM SOME FLEXIBILITY IN DE-CONTROLLING OTHER PRICES.  
LUCEY

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